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GSU Economic Forecasting Project Newsletter

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MONTHLY PROJECTIONS FOR EARLY JUNE

ANOTHER DOUBLE-DIGIT DECLINE DEVELOPING IN MAY

None of the important monthly economic data yet are available for May. Nevertheless, fragmentary information suggests that the free fall in economic activity continued through most of the month. Certainly, the Business Week index showed no interruption in its rate of descent. Steel production fell sharply throughout the month. Housing activity almost certainly continued to decline, although at a reduced rate from the record decline in March and the lesser decline in April. Initial unemployment claims reached record levels during the May survey week. Also, domestic auto sales remained near 5.3 million units at annual rates despite the re-introduction of rebates. While the decline in prices of new automobiles should increase sales in June, this early response to the rebate program is disheartening.

According to the manufacturing inventories accumulated in April, where gains were at a 1.7% rate despite significant slowing in commodity inflation, final sales appear to have declined even more dramatically than economic activity. Some involuntary inventory accumulations have developed. Economic activity almost certainly has passed the mild range for an entire recession and is moving up to the moderate level. Some analysts believe that the recovery will be as rapid as the decline. This is unlikely. The major reason for ruling out a V-shaped cycle is that the collapse in final sales is a readjustment toward higher savings rates. It is unlikely that this readjustment will unwind as soon as credit conditions are altered.

GNP Revisions Reduce Economic Imbalances Prior to Recession

The revised GNP estimates for the first quarter reduced real economic activity from 1.1% to 0.6% and reduced the implicit deflator from 9.5% to 9.3%. Changes in prices were not substantial, but changes in the composition of economic activity during the first quarter tended to reduce the degree of economic imbalance that existed prior to the onset of recession.

Real activity was revised downward for consumption expenditures, residential expenditures, business inventories, and federal defense purchases. Exports were revised upward to show a strong 19.6% annual rate of increase, which obviously cannot be sustained. Imports were revised downward. This strengthened the trade sector, which improved further in April. However, trade should not provide a positive economic impact beyond the first half of this year.

The downward revisions in consumption included declines in furniture purchases, declines in energy consumption, and substantial declines in transportation services. All these areas required some adjustment. In addition, an actual decline in business inventories occurred despite some modest growth in goods activity. Thus, inventory problems were diminished during the first quarter.

The unusually low savings level was revised upward by about $5 billion. While substantially greater adjustments in savings are needed, and are forthcoming as witnessed by the 4.2% savings rate in April, this upward revision reduces the total consumption adjustment that now must be made.

Of course, a downward revision in economic activity led to lower corporate tax accruals at the state and local level than had been expected. Thus, operating budgets currently are running $4.6 billion in deficit. This is greater than anticipated and should lead to weaker subsequent expenditures by state and local governments than contained in the forecast.

On balance, the unsustainably high export growth and the unsustainable deficits in state and local operating budgets, both of which imply developing weakness later in the year, are more than offset by reduced economic imbalance in the consumer sector and in inventory accumulations than originally had been recorded.

The net impact of the revised GNP statistics is to reduce the dimensions of the developing recession, but the changes are modest.

Monthly Highlights
May 1980

Payroll employment, -375,000; hours worked, -1.2%; unemployment, 7.6%; personal income, unc.; personal outlays, +0.1%; retail sales, -0.6%; auto sales, 7.8 million; industrial production, -1.8%; housing starts, -4.5%; housing permits, +1.8%; construction expenditures, -2.5%; durable goods orders, -4.5%; orders for nondefense capital goods, -4.2%; business inventories, +0.9%; CPI, +0.7%; PPI, +0.7%; merchandise trade deficit, -$1.9 billion; leading indicators, -0.8%.

Monthly Highlights
June 1980

Payroll employment, -230.000; hours worked, -0.4%; unemployment, 7.8%; personal income, +0.3%; personal outlays, +0.5%; retail sales, +0.6%; auto sales, 8.2 million; industrial production, -0.7%; housing starts, unc.; housing permits, +3.5%; construction expenditures, -1.6%; durable goods orders, +2.5%; orders for nondefense capital goods, -3.2%; business inventories, +0.8%; CPI, +0.6%; PPI, +0.6%; agricultural prices, +1.0%; merchandise trade deficit, -$2.5 billion; leading indicators, +0.3%; M1-B, +6.5%; M2,+7.6%.

COMMENTARY

Personal Income and Outlays

Personal income was slightly above anticipations in April, primarily because wage and salary increases were revised upward in February and March. These upward revisions were caused by upward estimates of hours worked. Unfortunately, the revision reflected greater declines in productivity than previously had been recorded. For that reason, employment may unravel much more rapidly now that the recession is here and now that inventory profits are eroding sharply. Therefore, the higher than expected personal income in April will not lead to higher than anticipated personal income growth in subsequent months.

While personal income was being revised upward, personal outlays declined sharply, especially in February and March. As a result, the personal savings rate rose more than $10 billion above previous anticipations for the month of April. Some of these downward revisions reflected lower than estimated expenditures for services, while other downward revisions were concentrated in the furniture and appliance areas. The reduction in service expenditures suggests that the downward revision in consumer outlays is partially a response to a downward estimate of normal income. Thus, it is possible that the entire consumer correction is developing during the early stages of this recession. If so, the savings rate will be substantially higher than previously expected during the spring and early summer months. At the same time, economic activity will be noticeably weaker than contained in the last forecast.

In addition to the downward revision in service expenditures, activity was significantly revised downward for furniture and appliances as reflected in non-auto durables and for the value of auto sales. Both these sectors unquestionably are overstated in the forecast for the second quarter.

Construction

Housing starts and housing permits showed decidedly different patterns for the month of April. Starts performed better than had been expected, primarily because single-family units showed a slight increase in overall starts. On the other hand, permits were down even more sharply than had been anticipated. Possibly, the April single-family starts reflected financing that already had been committed. As previous commitments become exhausted, a decline in starts may develop in the next few months. For this reason, the better than anticipated performance of single-family starts in April does not suggest that construction will perform better than contained in the forecast.

Business Activity

Durable goods orders slumped much more sharply than anticipated, but the important nondefense capital goods orders performed better than had been expected. However, the good performance in nondefense orders in April was caused by increases in aircraft orders. These are relatively bunched order flows that do not suggest that capital goods orders are strong. More significantly, shipments of nondefense capital goods slipped noticeably during April. Expenditures for producers' durables in the second quarter may fall below forecasted values. Similarly, shipments of defense goods began to slow. Thus, a second consecutive large quarterly increase in defense expenditures no longer in anticipated.

Prices

Some confusion has arisen over the role that mortgage financing plays in the Consumer Price Index. Mortgage financing constitutes 10% of the CPI and is measured primarily by the FHA and VA rates and the conventional mortgage rates prepared by the Federal Home Loan Bank. The FHA/VA rates are those prevailing early in the month of the price survey. For May, the government mortgages will register a decline. However, the conventional mortgage rate is for the first five business days of the preceding month. Thus, the mortgage that prevailed early in April will be included in the May CPI. This rate still was trending upward. A combination of the two rates should lead to a very little change in overall mortgage charges during May. In June, however, both mortgage rates should register significant declines. At that time, it is possible that the CPI could slow to as low as 0.4%.

Miscellaneous

April's merchandise trade balance was substantially better than had been anticipated, primarily because of a sharp drop in oil imports. This strong performance offset the especially weak performance on consumer outlays, leading to the likelihood that GNP in April approached forecasted values. As GNP was revised sharply downward for March, this means that the drop in activity between March and April was considerably less substantial than originally reported. On the other hand, the level of economic activity will approach forecasted values. As inflation rates are trending slightly above anticipations, the GNP deflator for April and subsequent months probably will be higher than originally anticipated. For this reason, GNP in 1972 dollars will be lower in April and subsequent months than contained in the forecast. The possibility of a double-digit decline in real GNP during the second quarter is very real.

Financial Markets

Interest rates fell dramatically in late April and in May despite a modest contraction in all basic measures of the money stock. Of more interest than the magnitude of the decline, which was basically anticipated by the forecast, was the composition of changes. Commercial paper rates fell dramatically relative to federal funds rates. This suggests that weak demand and not changes in supply was responsible for plummenting rates. Banks were quick to reduce the interest rates they were willing to offer for 90-day CD's to conform with the increased availability of funds, but they were extremely reluctant to lower the prime rate. If normal relationships persisted, the prime rate already would be below 12%.

Despite the dramatic decline in short-term rates, long-term interest rates drifted downward somewhat more sedately than had been expected. While a two percentage point change in seasoned Aaa's during a two-month period is a dramatic rally, the changes are relatively modest when compared to the dramatic changes in short-term rates. This probably reflects investor concern that underlying inflationary pressures have not receded at the present time.

Stock Market

The stock market apparently continues to be encouraged by the decline in interest rates and is continuing to ignore the erosion in economic activity. Some of this performance is justified, as the inventory valuation adjustment is falling sharply at the present time. Genuine profits are nearly unchanged during the second quarter. However, the decline in economic activity is so substantial that more than normal downside risk probably exists for equity values. For that reason, there is some likelihood that stock prices will decline during the summer.

EMPLOYMENT

	Payroll Employment		Index of Hours Worked		Household Employment		Unemployment Rate		Hourly Earnings Index	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
Dec. 1979	90241	90241	126.6	126.6	97912	97912	5.9	5.9	239.5	239.5
January	90652	90652	127.1	127.1	97804	97804	6.2	6.2	240.5	240.5
February	90845	90845	126.8	126.8	97953	97953	6.0	6.0	242.6	242.6
March	90799	90799	126.1	126.1	97656	97656	6.2	6.2	245.1	245.1
April	90320	90320	124.5	124.5	97154	97154	7.0	7.0	245.6	245.6
May	90047	N.C.	124.4	N.C.	96893	N.C.	7.5	N.C.	247.8	N.C.
June	89774		124.3		96632		7.5		249.8	
July	89808		124.2		96743		7.6		251.1	
August	89830		124.1		96854		7.7		252.4	
September	89840		124.1		96925		7.8		254.1	
October	89855		124.1		96983		7.9		255.8	
November	89866		124.1		97018		8.1		257.2	
December	89935		124.3		97121		8.3		258.9	
January	90009		124.4		97234		8.3		260.5	
February	90103		124.6		97332		8.3		262.4	
Mar. 1981	90196		124.8		97425		8.2		263.9	

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings		Disposable Income		Personal Outlays	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
Dec. 1979	2.028	2.028	1.283	1.283	57.0	57.0	1.701	1.701	1.644	1.644
January	2.047	2.047	1.293	1.293	59.0	59.0	1.728	1.728	1.669	1.669
February	2.054	2.056	1.301	1.304	58.0	64.1	1.735	1.735	1.677	1.670
March	2.069	2.070	1.310	1.313	59.8	69.4	1.747	1.746	1.687	1.677
April	2.067	2.070	1.303	1.306	62.4	73.3	1.746	1.747	1.683	1.674
May	2.075	N.C.	1.307	N.C.	58.6	N.C.	1.750	N.C.	1.692	N.C.
June	2.082		1.312		53.8		1.754		1.701	
July	2.115		1.320		77.1		1.788		1.711	
August	2.133		1.327		78.7		1.798		1.719	
September	2.150		1.335		80.3		1.807		1.727	
October	2.169		1.350		80.6		1.822		1.742	
November	2.185		1.358		79.7		1.837		1.757	
December	2.202		1.365		81.3		1.850		1.769	
January	2.212		1.377		84.6		1.867		1.782	
February	2.229		1.387		87.2		1.881		1.794	
Mar. 1981	2.247		1.398		89.4		1.895		1.806	

Fore. = February Forecast
C. E. = Current Expectations
N. C. = No Change Computed

RETAIL SALES

	Retail Sales		Non Auto Durables		Auto (Million Units)		Nondurable Sales		Auto Sales	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
Dec. 1979	77.15	77.15	11.33	11.33	10.5	10.5	51.21	51.21	14.62	14.62
January	79.46	79.46	11.58	11.58	11.6	11.6	52.20	52.20	15.69	15.69
February	78.21	77.99	11.44	11.32	10.5	10.5	51.63	51.62	15.15	15.05
March	77.22	76.23	11.51	10.73	10.1	10.1	51.67	52.01	14.05	13.49
April	76.25	75.33	11.48	10.77	8.3	8.3	51.83	52.39	12.94	12.17
May	75.84	N.C.	11.49	N.C.	7.8	N.C.	52.50	N.C.	11.85	N.C.
June	76.68		11.48		8.2		53.13		12.07	
July	76.37		11.37		7.8		53.15		11.85	
August	76.54		11.36		7.7		53.22		11.96	
September	76.77		11.35		7.9		53.33		12.09	
October	77.51		11.35		8.0		53.89		12.28	
November	78.22		11.42		8.0		54.49		12.31	
December	79.03		11.42		8.1		55.16		12.45	
January	79.27		11.46		7.8		55.35		12.46	
February	79.56		11.48		7.8		55.56		12.52	
Mar. 1981	79.95		11.49		7.9		55.78		12.68	

INDUSTRIAL PRODUCTION

	Industrial Production		Capacity Utilization	
	Fore.	C. E.	Fore.	C. E.
Dec. 1979	152.2	152.2	84.0	84.0
January	152.7	152.6	84.1	84.1
February	152.4	152.3	83.9	83.8
March	151.2	151.3	83.0	83.0
April	149.1	148.5	81.6	81.0
May	147.9	N.C.	80.6	N.C.
June	146.7		79.6	
July	146.4		79.1	
August	146.2		78.7	
September	146.2		78.5	
October	146.5		78.4	
November	146.8		78.3	
December	147.1		78.2	
January	147.7		78.2	
February	148.3		78.3	
Mar. 1981	149.0		78.4	

Fore. = February Forecast
C. E. = Current Expectations
N. C. = No Change Computed

HOUSING

	Housing Starts		Single Family Starts		Housing Permits		Expenditures (Current)		Expenditures (Real)	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
Dec. 1979	1.517	1.517	1.036	1.036	1.244	1.244	242.0	242.0	116.6	116.6
January	1.419	1.419	1.002	1.002	1.264	1.264	250.0	250.0	120.4	120.4
February	1.332	1.330	0.789	0.786	1.142	1.142	243.1	243.1	115.9	115.9
March	1.041	1.041	0.606	0.615	0.941	0.932	229.0	229.0	109.5	109.5
April	0.959	1.019	0.543	0.625	0.812	0.800	222.8	N.C.	105.6	N.C.
May	0.930	N.C.	0.495	N.C.	0.783	N.C.	217.5		102.3	
June	0.913		0.468		0.769		215.9		100.7	
July	0.978		0.539		0.812		214.2		99.2	
August	1.099		0.620		0.915		215.5		99.1	
September	1.127		0.649		0.973		217.8		99.4	
October	1.186		0.702		1.013		222.3		100.6	
November	1.215		0.734		1.005		227.9		102.3	
December	1.306		0.789		1.127		232.6		103.6	
January	1.397		0.883		1.221		237.4		104.8	
February	1.495		0.971		1.336		243.1		106.4	
Mar. 1981	1.582		1.018		1.443		246.9		107.1	

HOUSING CONTINUED

	Private Non Residential		Public Construction		Residenatial Construction	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
Dec. 1979	87.9	87.9	52.1	52.1	102.0	102.0
January	90.9	90.9	59.4	59.4	99.7	99.7
February	89.0	89.0	56.4	56.4	97.7	97.7
March	86.8	86.8	52.6	52.6	89.7	89.7
April	86.5	N.C.	53.8	N.C.	82.5	N.C.
May	86.5		54.7		76.3	
June	87.2		54.7		74.0	
July	87.7		54.6		71.9	
August	88.2		54.9		72.4	
September	88.6		55.3		73.9	
October	89.0		55.7		77.6	
November	89.5		56.0		82.4	
December	89.7		56.5		86.4	
January	90.1		57.1		90.2	
February	90.8		57.7		94.6	
Mar. 1981	91.2		58.0		97.7	

Fore. = February Forecast
C. E. = Current Expectations
N. C. = No Change Computed

BUSINESS ACTIVITY

	Manufacturers Inventories		Durable Goods Orders		Non-defense Capital Goods Orders		Non-defense Capital Shipments	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
Dec. 1979	228.1	228.1	77.75	77.75	22.86	22.86	20.22	20.22
January	232.0	232.0	82.03	81.26	23.87	23.70	21.02	21.03
February	234.8	234.8	81.88	81.05	22.09	21.51	21.38	21.32
March	238.1	238.1	79.14	77.91	23.47	22.95	21.82	21.48
April	240.3	N.C.	77.53	74.66	22.39	23.18	22.09	20.94
May	241.5		75.26	N.C.	21.95	N.C.	21.22	N.C.
June	242.3		73.01		20.65		20.67	
July	244.7		74.47		21.42		21.03	
August	246.5		75.51		21.89		21.48	
September	248.2		77.06		22.55		21.85	
October	250.3		76.82		22.46		21.72	
November	252.4		77.43		22.76		21.85	
December	254.0		79.02		23.01		21.95	
January	255.6		79.92		23.43		22.02	
February	256.9		79.15		23.21		22.13	
Mar. 1981	258.1		80.05		23.62		22.25	

	Business Inverntories		Defense Shipments	
	Fore.	C. E.	Fore.	C. E.
Dec. 1979	426.3	426.3	3.18	3.18
January	431.5	431.5	3.19	3.08
February	434.8	435.1	3.24	3.25
March	440.3	437.6	3.39	3.39
April	442.3	N.C.	3.43	3.33
May	444.7		3.38	N.C.
June	446.4		3.35	
July	450.1		3.40	
August	452.9		3.45	
September	456.0		3.49	
October	458.7		3.54	
November	461.3		3.60	
December	464.7		3.66	
January	467.1		3.70	
February	469.7		3.73	
Mar. 1981	472.2		3.77	

Fore. = February Forecast
C. E. = Current Expectations
N. C. = No Change Comp

PRICES

	CPI (unadjusted)		PPI Finished Goods		PPI-Industrial Commodities (unadjusted)		Agricultural Prices (unadjusted)		IVA Corp. (annual rate)	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
Dec. 1979	229.9	229.9	227.8	228.1	252.8	253.1	238	238	51.8	51.8
January	233.2	233.2	232.1	232.1	260.3	260.3	236	236	62.2	64.1
February	236.4	236.4	235.4	235.4	265.4	265.4	238	238	74.5	72.3
March	239.8	239.8	238.2	238.2	268.2	268.2	234	234	68.1	66.7
April	242.0	242.5	239.4	240.0	269.5	270.7	225	223	49.2	54.3
May	243.7	N.C	241.1	242.2	271.9	272.6	228	225	30.1	N.C.
June	245.3		243.3	N.C.	274.3	N.C.	232	N.C.	23.1	
July	247.5		245.7		277.1		236		29.2	
August	249.6		247.9		279.6		240		33.4	
September	251.4		249.8		282.2		239		44.8	
October	253.5		252.0		285.3		237		45.3	
November	255.6		254.0		288.4		241		44.1	
December	257.7		256.2		291.1		245		42.3	
January	259.8		258.3		293.2		250		37.2	
February	261.9		260.5		294.6		253		35.2	
Mar. 1981	264.0		262.7		296.1		252		37.4	

MISCELLANEOUS

	Merchandise Trade Balance		Leading Indicators		Estimated GNP		Estimated GNP (1972 $)		Estimated GNP Deflator	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
Dec. 1979	-2923	-2923	135.6	135.6	2485	2485	1447	1447	1.7169	1.7169
January	-3597	-3597	135.2	135.2	2514	2513	1452	1452	1.7309	1.7310
February	-4407	-4407	134.8	134.8	2520	2519	1444	1444	1.7451	1.7440
March	-2080	-2080	131.3	132.3	2527	2516	1436	1431	1.7593	1.7576
April	-2675	- 850	129.2	126.3	2514	N.C.	1420	N.C.	1.7699	N.C.
May	-2908	N.C.	127.7	N.C.	2520		1416		1.7800	
June	-3242		126.5		2526		1410		1.7917	
July	-2965		126.8		2543		1409		1.8048	
August	-2802		127.1		2560		1409		1.8175	
September	-2775		126.6		2578		1408		1.8311	
October	-2695		127.3		2593		1402		1.8494	
November	-2638		127.5		2608		1405		1.8557	
December	-2543		126.6		2632		1407		1.8701	
January	-2453		127.1		2655		1409		1.8839	
February	-2379		127.8		2687		1414		1.9009	
Mar. 1981	-2295		128.9		2715		1418		1.9146	

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FINANCIAL MARKETS

Monetary

	Base		M1-B		M2		Federal Funds		T-Bills (6 Mos.)	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
Dec. 1979	154.0	154.0	387.7	387.7	1524.2	1524.2	13.78	13.78	11.84	11.84
January	154.9	154.9	389.1	389.0	1532.8	1532.8	13.82	13.82	11.84	11.84
February	156.1	156.1	392.9	392.9	1546.6	1546.2	14.13	14.13	12.86	12.86
March	157.0	157.0	392.3	392.3	1550.9	1550.2	17.19	17.19	15.03	15.03
April	157.4	157.4	389.7	387.5	1550.7	1546.8	18.59	18.59	13.62	13.62
May	158.0	158.0	389.5	388.4	1551.2	1548.3	10.41	11.82	9.38	9.15
June	158.6	N.C.	391.1	N.C.	1554.1	N.C.	8.68	N.C.	8.35	N.C.
July	159.4		394.3		1568.9		9.11		8.89	
August	160.3		396.8		1587.7		9.65		9.16	
September	161.1		398.9		1599.4		9.85		9.41	
October	161.9		401.4		1613.6		9.43		9.12	
November	162.7		404.7		1627.1		9.08		9.03	
December	163.6		406.8		1641.1		8.76		8.92	
January	164.4		408.5		1656.8		8.15		8.67	
February	165.3		410.2		1669.3		8.42		8.46	
Mar. 1981	166.2		411.9		1681.2		8.82		8.50	

	Aaa (Seasoned)		Municipals		Commercial Paper		90 Day CD'S		Prime Rate	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
Dec. 1979	10.74	10.74	7.22	7.22	13.24	13.24	13.43	13.43	15.30	15.30
January	11.09	11.09	7.35	7.35	13.04	13.04	13.39	13.39	15.25	15.25
February	12.38	12.38	8.16	8.16	13.78	13.78	14.30	14.30	15.63	15.63
March	12.96	12.96	9.17	9.17	16.81	16.81	17.57	17.57	18.31	18.31
April	12.22	12.04	8.63	8.63	17.43	16.20	18.09	16.78	19.27	19.65
May	10.27	11.04	7.19	7.59	9.76	9.73	9.97	10.13	15.73	17.20
June	9.34	N.C.	6.54	N.C.	8.46	N.C.	8.69	N.C.	12.49	N.C.
July	9.78		6.75		9.23		9.55		11.89	
August	10.15		6.81		9.79		10.11		11.75	
September	10.29		7.10		10.02		10.35		11.75	
October	10.15		7.00		9.37		9.52		11.55	
November	10.01		6.86		8.86		9.14		11.36	
December	9.97		6.78		8.55		8.73		10.92	
Janaury	9.82		6.68		7.96		8.16		10.63	
February	9.59		6.47		8.55		8.96		10.50	
Mar. 1981	9.55		6.49		9.03		9.37		10.50	